

BOOSTING FEDERAL COLLEGE SCHOLARSHIPS

BILL SUMMARY: Direct Loan Reward Act

Higher education has long served as the best opportunity for a better life to millions. Yet, as college tuition continues to rise and the buying power of grants decline, too many students are taking on huge loan debts and working long hours that hurt their academic study and overall college experience, or else they are forgoing college altogether.

Direct Loan Reward Act (H.R.4370) • Making College Affordable

The bipartisan *Direct Loan Rewards Act* (H.R. 4370), introduced by Representatives Thomas Petri (R-WI) and George Miller (D-CA), would provide millions of dollars in additional federal college scholarships (Pell Grants) to students at no additional cost to taxpayers. The plan is simple: the *Direct Loan Reward Act* encourages more schools to utilize the less expensive of the federal government's two main student loan programs.

Currently, the federal government has two main student loan programs: the Federal Family Education Loan program (FFEL) and the Direct Loan (DL) program. In the FFEL program, private banks provide the capital to make loans, while the federal government guarantees the loans against default and guarantees returns to the banks. In the Direct Loan program, the federal government acts as the lender and provides the money for loans through wholesale U.S. Treasury bonds.

While the FFEL and DL programs deliver the same loans and interest rates to students, the DL program is less costly to taxpayers because it eliminates the need for a middleman, cuts out unnecessary subsidies and secures capital at lower rates. As a result, the DL program offers taxpayers considerable savings of up to \$10 for every \$100 lent.

"Significantly lower Direct Loan subsidy rates call into question the cost effectiveness of the FFEL program structure, including the appropriate level of lender subsidies."

White House Office of Management and Budget, 2004

H.R. 4370 would give schools half of the federal savings generated by their switching from the FFEL to DL program. These savings would be used to provide additional Pell Grant money to students with financial need. The bill would lower federal student loan costs and boost financial aid for low and middle-income students. Under the *Direct Loan Reward Act*, students, colleges and taxpayers all win.

Federal Cost for \$65 Billion in Federally Guaranteed Student Loans	
Guaranteed (FFEL) Loans Projected in FY 2005	\$64,637,000,000
Estimated Federal Cost	\$6,793,000,000
Estimated Federal Cost for Same Amount of Direct Loans	\$446,000,000
Potential Savings	\$6,347,000,000

SOURCES: Volume estimates from the FY 2005 Budget Appendix, p. 366; Incorporating Federal Administrative Costs into FFEL and Direct Loan Program Cost Estimates, Department of Education, 1999